

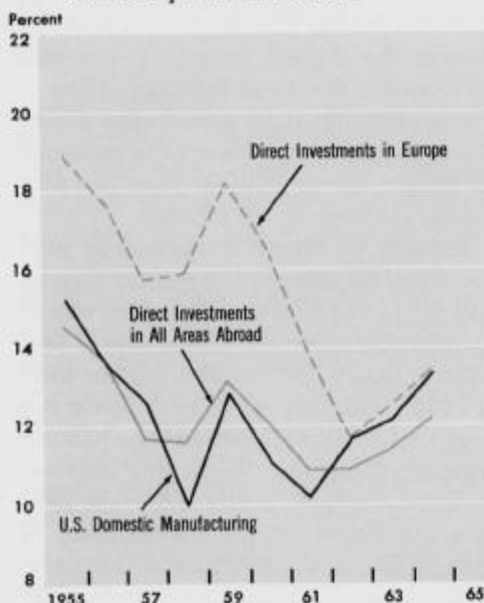
Foreign Investments, 1964-65

THE very sharp rise of private capital outflows to nearly \$6.5 billion, by far the largest amount on record, was a major feature of the U.S. balance of payments in 1964. This development has already been discussed in connection with the President's program to improve the balance of payments. This article provides more complete statistics on private foreign investments than have been available up to now, together with some indications of current and prospective developments as reflected in projections of plant and equipment expenditures abroad in 1965 and 1966.

CHART 9

Return on Manufacturing Investments

- Domestic return above overall foreign rate since 1961
- Following a sharp drop, return in Europe is now comparable to U.S. rate



NOTE.—Return on domestic manufacturing represents net income applied to net worth at the beginning of the year (First National City Bank of N.Y.). Return on direct manufacturing investments abroad and in Europe represents the U.S. share of net earnings for the year (see table 4) applied to book value of these investments at the beginning of the year. (See table 2.)

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All components of private capital outflows except purchases of foreign securities moved upward last year: Direct investments were up \$0.4 billion to \$2.4 billion; net lending by banks (including assets held for customers) rose by about \$1.0 billion to \$2.5 billion, and loans and acquisitions of short-term assets abroad by nonfinancial concerns increased very sharply to \$0.9 billion. Purchases of foreign securities were inhibited by the Interest Equalization Tax (IET) and were reduced to a net of \$0.7 billion. These outflows, together with reinvested direct investment earnings of \$1.4 billion, gains in market prices of foreign securities, and sizable additions to foreign assets resulting from improved reporting by some banks and nonfinancial concerns, raised the accumulated total of private U.S. foreign investments to more than \$75 billion by the beginning of this year.

Capital outflows picked up throughout 1964 and reached a peak of \$2.2 billion (seasonally adjusted) in the last quarter. New issues of foreign securities were temporarily inflated when passage of the IET, first proposed in July 1963, clarified the conditions under which foreign securities could be purchased. These issues have since returned to a more normal level. However, the further increases in bank lending and in direct investment flows that showed up late in 1964 were still evident in early 1965, and could not be assumed to be merely temporary. As is by now well known, major components of the program to improve the balance of payments are the reduction of bank lending to about \$0.5 billion for the year and a strenuous effort by firms with direct investments abroad to conduct their international operations so as to raise

considerably their net contribution to the balance of payments.

The data on capital flows for the first half of 1965, given in the article beginning on page 11, show that after the announcement of the program in February, banks acted quickly to cut back their foreign lending and industrial firms promptly repatriated a large part of their liquid funds held outside the United States. However, from the projections of foreign plant and equipment expenditures presented later in this report, it is clear that industrial companies reporting in May and June planned to carry out an extraordinary amount of investment abroad this year and next. Such plans cannot be altered rapidly or without considerable loss, nor can alternative foreign sources of financing be arranged readily, especially when many countries are carrying out relatively tight domestic monetary policies. Consequently, direct-investment capital outflows in the first half of the year were \$2.1 billion, double the amount for the first 6 months of last year, and the total for all of 1965 will probably be higher than in 1964. However, the first-half total includes sizable flows, especially to Canada and the Middle East, connected with special developments not likely to be repeated in the second half. Also, the first-half flow probably included some anticipatory placing of funds abroad for later use.

Direct Foreign Investments

Capital outflows for direct investment abroad have been moving up to successively higher rates since the end of World War II. They reached \$2.4 billion in 1964 and have shown a further increase so far this year. At the same

time, increased income derived from foreign affiliates has been one of the major elements of strength in the balance of payments. Last year, earnings of the affiliates rose by over \$½ billion and reached \$5.1 billion. Out of that total, \$3.7 billion was returned to the United States—compared to \$3.1 billion in 1963—and \$1.4 billion was retained abroad. The aggregate increase in the value of the U.S. investment in the foreign affiliates—derived

from net capital flows plus retained earnings—was \$3.8 billion.

This article also presents figures for 1965 and 1966 on gross expenditures for plant and equipment abroad projected by companies with foreign affiliates. Such expenditures are considerably larger than the sum of capital outflows from the United States plus retained earnings, since they can also be financed from depreciation reserves accumulated by the foreign companies or through external financing obtained abroad. In 1964, capital outlays for fixed assets abroad amounted to \$6.1 billion. The company projections for the current year show a rise of 20 percent to \$7.4 billion, and taking account of the experience in previous years, which shows that projections made nearly 2 years ahead have been lower than actual outlays (see chart 10), another gain seems likely in 1966.

Increases in capital expenditures abroad for 1965 are fairly widespread, and some areas show outstanding gains. A particularly strong growth is projected for European capital outlays, with an overall advance of 25 percent and a 34 percent rise in manufacturing. In Canada, the rate of capital expenditures by all affiliates of U.S. firms is projected to be up by nearly 20 percent, and the rise for manufacturing affiliates is 34 percent, quite close to the increase reported in surveys of Canadian manufacturing as a whole. Substantial upturns in investment activity by U.S. companies are also reported for mining in Australia, manufacturing in Japan, and petroleum in the Middle East and Far East. (See table 11.)

These reports on foreign plant and equipment expenditures give some indication of prospective capital outflows from the United States, though the link between the two series is indirect. Capital outflows represent the net amount invested in the period by parent companies, to increase stock ownership in, or provide credits of all maturities to, new or existing foreign affiliates, or to acquire existing enterprises from their foreign owners. Capital transfers by the U.S. parent companies provide only a portion of the funds currently available to the foreign affiliates. While expenditures on plant and equip-

ment by these affiliates account for a major portion of the funds that they use, they also need funds to finance working capital requirements.

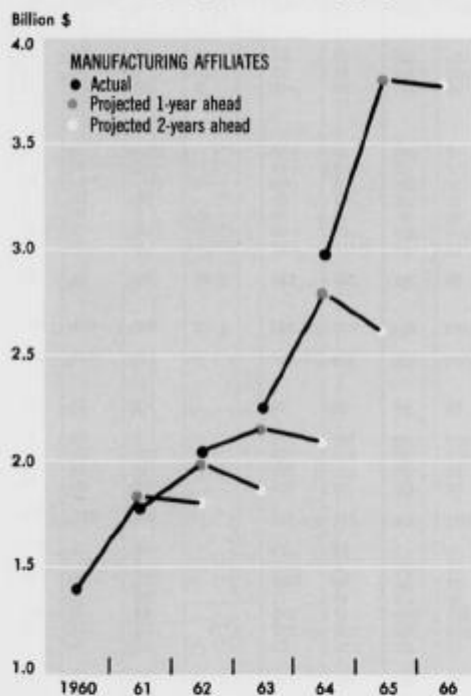
Information on the overall sources and uses of the funds of the foreign affiliates, including changes in working capital requirements, will be published in the SURVEY as soon as possible.

In the period since 1957, capital outflows for direct investment have amounted to 35–40 percent of the plant and equipment expenditures of foreign affiliates. If this relationship persists, and if no major changes occur in foreign financing or amounts spent to acquire existing foreign enterprises, the rate of capital outflow could be expected to rise from 1964 to 1965 by \$½ billion to \$3 billion.

The persistent and rapid extension of U.S. industry into expanded production facilities abroad has been an important feature of recent economic developments, and much more research is

Projections of Plant and Equipment Expenditures Abroad

- Manufacturing affiliates report major expansion in 1965
- Further step-up suggested for 1966, based on past performance of projections



Petroleum projections indicate large rise over 1964 rate

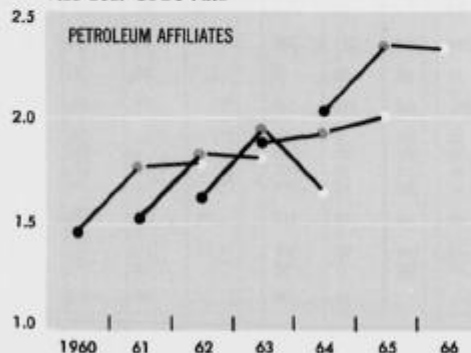


Table 1.—Factors Affecting the U.S. Private Investment Position, 1963 and 1964

(Millions of dollars)

Type of investment	1963 *	1964
U.S. private investments abroad:		
Total, beginning of year.....	60,025	66,513
Add: Capital outflow ¹	4,456	6,462
Reinvested earnings.....	1,507	1,417
Price changes and other adjustments.....	525	1,027
Total, end of year.....	66,513	75,419
Direct Investments:		
Value, beginning of year.....	37,226	40,686
Add: Capital outflow ¹	1,976	2,377
Reinvested earnings.....	1,507	1,417
Other adjustments ²	-23	-137
Value, end of year.....	40,686	44,343
Other long-term private investments abroad:		
Value, beginning of year.....	15,506	17,644
Add: Capital outflow ¹	1,095	1,975
Price changes.....	459	325
Other adjustments.....	-16	444
Value, end of year.....	17,044	20,388
Short-term assets and claims:		
Value, beginning of year.....	7,293	8,183
Add: Capital outflow ¹	785	2,111
Enlarged coverage of reports.....	105	394
Value, end of year.....	8,183	10,688
Foreign long-term investments in the United States:		
Direct Investments:		
Value, beginning of year.....	7,612	7,944
Add: Capital inflow ¹	-5	-5
Reinvested earnings.....	236	327
Other adjustments ²	101	97
Value, end of year.....	7,944	8,363
Other long-term investments:		
Value, beginning of year.....	12,604	14,847
Add: Capital inflow.....	331	115
Price changes.....	1,902	1,041
Other adjustments.....	10	13
Value, end of year.....	14,847	16,116

* Revised.

¹ Included in the balance of payments accounts.

² For detail see note to table 2.

³ Mainly revaluations of securities held by affiliates of foreign insurance companies.

needed to determine its causes and effects. Decisions by manufacturing firms to meet foreign demand by producing abroad rather than producing here and exporting result from the interplay of such factors as (a) lower costs and expected higher rates of

return abroad, (b) prospective market growth abroad in general and for specific products, (c) tariffs, quotas, local preferences, or competition abroad that threaten markets for exports, and (d) the availability of funds for financing domestic and foreign plants.

Rates of return are notoriously difficult to derive and compare meaningfully. However, chart 9 suggests that until 1961 rates of return on European manufacturing investments (but not on foreign manufacturing investments in general), although declining, were still

Table 2.—Value of Direct Investments Abroad¹ by Selected Countries and Industries, at Yearend 1963 and 1964

(Millions of dollars)

Line	Area and country	Table 2														Table 3					
		1963							1964							Net capital outflows					
		Total	Mining and smelting	Petroleum	Manufacturing	Public utilities	Trade	Other	Total	Mining and smelting	Petroleum	Manufacturing	Public utilities	Trade	Other	1963	Total	Mining and smelting	Petroleum	Manufacturing	Other
1	All areas, total.....	40,588	3,363	13,652	14,337	2,061	3,387	3,359	44,343	3,694	14,350	16,841	3,433	3,736	3,308	1,976	3,376	88	738	997	552
2	Canada.....	12,044	1,649	3,134	6,761	457	747	1,396	13,329	1,671	3,228	8,181	467	895	1,428	385	269	45	38	138	38
3	Latin American Republics, total.....	8,582	1,433	3,495	2,802	715	882	775	8,332	1,038	3,142	2,849	588	851	232	83	186	-8	4	91	68
4	Mexico.....	907	116	58	503	25	83	105	1,038	128	50	807	57	111	106	24	94	5	-7	79	16
5	Panama.....	618	10	14	12	20	273	193	604	19	305	23	28	282	200	31	26	3	3	10	7
6	Other Central America and West Indies.....	539	30	125	22	141	23	192	804	31	145	45	143	28	205	28	41	5	29	5	12
7	Argentina.....	829	(*)	(*)	454	(*)	38	338	883	(*)	(*)	497	(*)	42	344	20	16	(*)	(*)	6	7
8	Brazil.....	1,132	30	80	864	153	148	38	994	24	51	673	41	153	42	-44	-44	(*)	(*)	-25	5
9	Chile.....	788	503	(*)	27	(*)	15	223	788	499	(*)	30	(*)	20	210	14	9	(*)	(*)	13	3
10	Colombia.....	485	(*)	260	120	27	53	19	520	(*)	270	145	30	58	22	-1	39	(*)	(*)	15	3
11	Peru.....	448	240	50	84	21	41	27	480	241	50	65	22	40	31	-5	19	(*)	(*)	1	4
12	Venezuela.....	2,883	(*)	2,100	202	36	185	218	2,886	(*)	2,183	219	18	300	286	-35	-40	(*)	(*)	-25	-22
13	Other countries.....	169	6	48	25	21	15	25	180	7	87	35	21	18	35	(**)	17	(*)	(*)	7	3
14	Other Western Hemisphere.....	1,229	216	643	111	47	82	238	1,398	259	899	168	49	89	263	167	134	38	31	40	25
15	Europe, total.....	18,546	55	2,776	5,634	44	1,237	535	12,967	54	3,086	6,547	43	1,472	964	330	1,343	2	289	601	349
16	Common Market, total.....	4,439	14	1,320	2,629	34	438	158	5,346	13	1,541	3,055	46	551	198	588	787	(*)	227	444	115
17	Belgium and Luxembourg.....	356		93	228	1	61	12	432	(**)	00	290	1	73	16	35	73		5	57	10
18	France.....	1,548	9	284	784	11	168	38	1,437	9	281	893	23	130	43	164	122	(*)	4	86	48
19	Germany.....	1,780	(*)	495	1,121	5	309	49	2,077	(*)	576	1,315	5	119	63	225	273	(*)	123	121	19
20	Italy.....	868	(*)	300	330	2	85	34	845	(*)	330	382	3	74	37	120	285	(*)	64	143	4
21	Netherlands.....	448		281	148	10	60	19	687	(**)	238	212	16	90	25	53	106		40	38	38
22	Other Europe, total.....	5,259	45	1,447	3,108	9	786	445	5,699	43	1,576	3,449	8	921	674	341	555	(*)	182	587	236
23	Denmark.....	133	1	88	28	(**)	18	2	185	1	116	28	(**)	18	2	18	38		30	8	(**)
24	Norway.....	123	(*)	67	27	(**)	11	17	128	(*)	69	29	(**)	14	17	7	2	(*)	1	(**)	1
25	Spain.....	154	(*)	40	83	4	21	7	183	(*)	51	90	4	23	10	28	35		11	(2)	11
26	Sweden.....	221	(**)	136	35	(**)	41	7	268	(**)	187	44	(**)	48	8	43	31		29	2	22
27	Switzerland.....	672	(**)	30	131	(**)	271	240	944	(**)	83	158	1	245	389	67	215		44	9	182
28	United Kingdom.....	4,172	28	880	2,730	0	309	171	4,550	2	985	3,015	4	284	239	154	287		82	122	68
29	Other countries.....	374	25	300	84	-1	60	15	431	26	235	79	-2	78	22	25	33	(*)	17	9	8
30	Africa, total.....	1,426	349	762	177	12	89	185	1,629	284	628	225	2	43	122	169	135	2	97	38	18
31	Liberia.....	197	(*)	(*)	(*)	(*)	(*)	197	187	(*)	(*)	(*)	(*)	(*)	187	11	-7	(*)	(*)	(*)	-7
32	Libya.....	304	(*)	(*)	(*)	(*)	(*)	304	382	(*)	(*)	(*)	(*)	(*)	382	36	73	(*)	(*)	(*)	73
33	Republic of South Africa.....	411	93	(*)	168	(**)	47	142	487	86	(*)	192	(**)	61	157	12	17	(*)	4	4	12
34	Other countries.....	513	192	272	17	8	38	8	603	197	326	82	0	24	9	28	51	1	50	14	4
35	Asia, total.....	2,793	35	1,320	428	40	190	171	3,063	34	2,014	535	85	238	188	281	188	(**)	98	50	68
36	Middle East.....	1,237	3	1,205	35	4	10	21	1,331	2	1,228	35	4	12	35	45	42	1	25	3	14
37	Far East, total.....	1,515	30	714	358	36	189	180	1,731	31	775	485	82	227	150	148	146	(**)	74	48	25
38	India.....	306	(*)	(*)	77	2	22	104	224	(*)	(*)	94	2	38	109	8	20	(*)	(*)	10	10
39	Japan.....	472	(*)	(*)	145	2	53	272	491	(*)	(*)	191	2	72	326	09	73	(*)	(*)	15	55
40	Philippine Republic.....	415	(*)	(*)	110	27	64	214	409	(*)	(*)	130	43	68	227	21	37	(*)	(*)	17	20
41	Other countries.....	523	(*)	(*)	84	6	50	304	438	(*)	(*)	81	5	67	384	82	36	(*)	(*)	6	11
42	Oceania, total.....	1,484	82	498	723	1	88	77	1,582	100	444	386	2	87	93	97	114	19	28	58	18
43	Australia.....	1,274	82	(*)	587	(*)	57	458	1,483	100	(*)	300	(*)	82	467	96	131	(*)	(*)	57	54
44	Other countries.....	180	(**)	(*)	36	(*)	28	128	118	(**)	(*)	86	(*)	28	42	1	-6	(**)	(*)	-1	-6
45	International.....	1,733		928		748			1,565		1,038		827			27	84		69		-4

1. The value of direct investments abroad was reduced in 1963 by \$23 million, and in 1964 by \$127 million, owing to valuation adjustments on companies' books, profits and losses on liquidations, or transfers to other investment categories. In particular, the value of direct investments in the public utilities industry in Brazil was reduced by \$183 million as of the

end of 1964 by a settlement with the Brazilian Government. The equivalent value was added to the total for U.S. private portfolio investments included in table 1b. The value of investments in specific industries and countries is also affected by capital flows among foreign affiliates as shown in table 6.

higher than those obtained on manufacturing investments in the United States. Since then, returns in the United States and in Europe have been similar, and both have turned sharply upward.

The fact that growth rates in Europe

(and in a few other developed countries) have surpassed the U.S. rate since the 1950's may also have encouraged production abroad. In this connection, there may now be some shift in favor of the United States, since several industrialized foreign countries have

experienced a slowdown in growth—though they have taken measures to correct this—at a time when the United States has enjoyed a very strong growth rate. These changes, including the relative shift in rates of return, would tend to strengthen the comparative

Capital Flows and Undistributed Subsidiary Earnings, With Major Industries for 1964

Table 4.—Direct-Investment Earnings and Income,² by Selected Countries, With Major Industries for 1964

(Millions of dollars)

Table 3—Continued						Table 4											Line
Undistributed subsidiary earnings						Earnings					Income						
1963 *	1964 *					1963 *	1964 *					1963 *	1964 *				
	Total	Mining and smelting	Petroleum	Manufacturing	Other		Total	Mining and smelting	Petroleum	Manufacturing	Other		Total	Mining and smelting	Petroleum	Manufacturing	Other
1,567	1,417	363	-49	914	459	4,687	5,118	665	5,000	1,514	136	3,354	3,741	539	1,322	574	543
533	498	37	54	389	75	348	1,164	191	170	564	177	415	634	114	185	269	133
173	219	18	3	140	66	964	1,164	164	610	239	161	661	966	172	563	92	133
13	24	3	-2	30	3	64	93	17	2	55	19	49	61	12	4	27	18
61	31	(*)	(*)	18	18	85	73	(*)	2	8	55	23	43	(*)	3	1	38
3	9	(*)	(*)	4	6	32	39	9	2	5	20	31	28	6	1	15	6
-4	29	00	0	26	3	52	93	00	(*)	09	31	57	54	(*)	(*)	34	30
-57	58	00	0	44	11	65	65	00	(*)	46	11	13	5	(*)	-2	3	3
-2	12	1	0	9	6	68	60	00	(*)	15	10	18	73	00	(*)	1	12
-3	2	00	0	1	8	33	33	00	(*)	14	13	24	22	00	0	5	30
1	2	00	0	1	8	70	63	00	(*)	6	13	77	54	00	11	5	11
82	27	00	0	17	11	510	582	00	482	27	65	488	595	00	461	10	55
1	6	00	0	3	9	-6	0	1	-4	3	5	-7	2	1	-3	2	3
34	34	3	-1	26	15	261	149	76	34	17	22	185	116	73	23	4	7
553	410	-1	-87	427	172	394	1,112	3	0	754	348	587	654	5	64	412	173
143	303	0	-54	429	33	393	199	(*)	-39	444	94	232	278	(*)	24	196	56
28	18	0	0	11	6	48	53	(*)	-1	42	12	15	34	(*)	2	26	0
40	55	00	11	30	9	73	86	00	11	05	19	27	27	(*)	17	10	18
63	16	00	-45	56	7	215	280	00	-31	194	32	146	178	(*)	136	21	19
5	-5	00	-17	7	6	31	19	00	-16	23	13	24	23	00	6	7	20
9	21	00	4	19	5	33	35	00	-10	23	16	26	19	00	11	12	21
368	319	0	-27	168	138	556	713	(*)	46	418	257	575	376	(*)	41	216	122
-1	-1	00	0	-1	2	3	6	00	0	3	8	6	6	00	1	6	2
6	3	00	0	1	1	11	12	00	0	3	6	6	6	00	1	1	4
6	3	00	0	1	1	12	18	00	0	4	6	6	6	00	1	1	4
4	4	00	0	4	4	18	28	00	0	18	14	16	16	00	2	2	14
136	113	00	0	17	100	163	151	00	0	20	134	30	40	00	4	38	27
219	170	00	0	164	25	374	476	00	44	380	72	196	278	00	200	46	28
8	13	00	0	25	5	25	44	00	14	11	19	18	57	00	11	14	20
42	48	0	0	36	(*)	186	242	36	227	0	35	121	347	32	53	34	30
(*)	-4	00	00	00	-1	13	18	00	00	18	15	22	22	00	00	32	31
1	4	00	00	00	4	85	256	00	00	00	256	83	252	00	00	252	32
26	38	00	00	00	1	82	37	00	00	00	27	40	46	00	13	18	33
2	1	00	00	00	1	-13	-10	13	00	00	5	-10	-10	00	1	4	34
72	67	1	-12	41	26	1,186	1,067	3	612	82	79	2,067	1,946	1	960	34	50
11	71	00	0	1	2	305	376	00	247	5	5	586	599	00	593	1	3
68	67	1	-38	40	25	382	161	3	46	78	65	124	148	1	48	32	47
8	7	00	00	5	4	14	23	00	00	14	8	7	13	00	6	6	38
28	35	00	00	24	16	49	64	00	00	22	21	26	31	00	8	23	29
16	12	00	00	1	1	34	45	00	00	18	30	20	28	00	12	16	40
8	-3	00	00	20	-15	51	69	00	00	16	63	21	27	00	4	73	41
63	80	7	-1	71	3	145	143	18	6	126	14	57	59	3	63	30	43
71	85	7	00	61	-2	127	123	10	00	174	-1	51	54	3	68	1	43
12	15	00	00	10	6	18	21	00	00	18	0	6	6	00	3	3	44
82	73	00	-9	00	88	99	96	00	0	00	98	19	30	00	26	4	45

2. Income is the sum of dividends, interest and branch profits; earnings is the sum of the U.S. share in the net earnings of subsidiaries and branch profits.

* Revised.

* Preliminary.

* Combined in "Other Industries."

** Less than \$500,000.

Note.—In this and subsequent tables, detail may not add to totals because of rounding.

attractiveness of capital investments in the United States.

Barriers to export sales and the advantages of being close to varied demands in local markets no doubt continue to be prime factors in the location of production facilities abroad. Efforts to bring about reductions in trade barriers that tend to discourage exportation from the United States in favor of production abroad, and to maintain competitive cost and price conditions at home, would also tend to favor production in the United States relative to production abroad.

An additional factor affecting investments in the natural resource industries has been the discovery of new sources of supply that can be operated competitively. Since the war, there

have been several instances of discovery and very rapid growth in such investments. A number of new major projects that will involve very sizable capital expenditures are now planned or underway, such as the development of Australian iron ore and bauxite and offshore petroleum or gas reserves in the North Sea and the Persian Gulf area.

Currently, U.S. manufacturing firms are sharply raising both their domestic and foreign plant and equipment expenditures (chart 11), especially foreign. This worldwide expansion is being facilitated by a growth of funds internally generated out of U.S. operations (retained profits and depreciation charges) which has been even faster than the growth of domestic outlays on plant and equipment. Thus, in general, foreign expansion has not been limited by the availability of investment funds or the pressure of requirements for domestic capital expenditures.

Developed areas preferred

The recent experience with direct investments abroad represents an intensification of the patterns of the past few years. European investments predominate, accounting for nearly half of the additions to direct investments in 1964 (capital outflows plus retained earnings) and about the same proportion so far this year. In 1964, the European investment flow included over \$300 million to acquire existing foreign interests. The European share in foreign plant and equipment expenditures by U.S. firms was about 35 percent (table 9), but is projected to rise to about 40 percent of total foreign outlays in 1966.

Of the \$1.7 billion added to the value of European direct investments in 1964, the largest share—\$0.9 billion—went to the Common Market countries; \$0.4 billion went to the United Kingdom, and \$0.4 billion to the rest of Europe. The \$1.7 billion total included a sharp rise to \$1.3 billion in capital flows from the United States; this was offset, in part, by a decline in undistributed profits in the petroleum industry. Preliminary data for the first half of 1965 show capital outflows to Europe well ahead of the first half of 1964.

Manufacturing is the largest activity of U.S. firms in Europe and accounted for \$6.5 billion out of \$12.1 billion invested there at the end of 1964. Of the \$0.9 billion added to these investments during 1964, nearly two-thirds went to the Common Market and most of the remainder to the United Kingdom. Investments are widely dispersed over the major manufacturing industries (table 5) and are growing most rapidly in transportation equipment and machinery. This is demonstrated also by the figures for plant and equipment expenditures (table 10), which show capital outlays in these sectors rising through 1966.

American petroleum companies are also very actively expanding their European investments, not only in refining, transportation, and marketing facilities but also in the development of potentially important reserves of gas and oil. Part of the costs of developing new resources are charged against income, and this contributed to the decline in earnings in this industry in Europe, as may be seen in table 4. However, the decline in petroleum earnings in 1964 also reflected competitive pressures. Nevertheless, the industry has scheduled a continuous rise in European capital expenditures to keep up with increasing demand and to provide refining and distribution facilities for the additional output of affiliated producing companies. As shown in table 11, petroleum investments in the United Kingdom and in several continental countries are expected to rise this year and next.

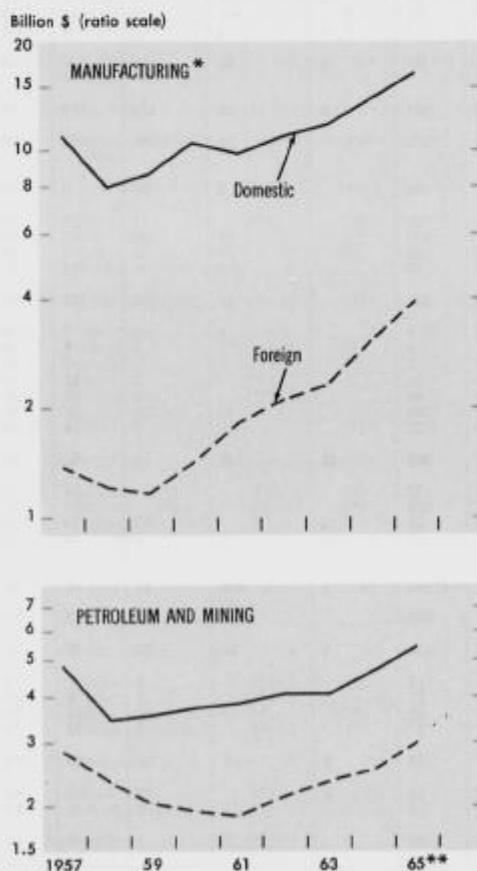
Investments in other industries in Europe have been growing by smaller amounts, though capital flows to financial affiliates in Switzerland and the United Kingdom, including a sizable investment in a British insurance firm, increased by about \$100 million in 1964 over 1963.

Canada

The strong growth trend in the Canadian economy is attracting a great deal of investment by U.S. firms. This is shown most clearly in plant and equipment expenditures, which rose by \$0.3 billion in 1964 and will probably rise

CHART 11

Capital Expenditures by U.S. Companies Domestic and Foreign



* Excludes primary iron and steel, and petroleum.

** Anticipated. Domestic investment includes actual outlays for 1st half.

U.S. Department of Commerce, Office of Business Economics

45-9-11

by a like amount in 1965. Outstanding increases are reported for manufacturing, and a higher rate of investment in mining is also indicated.

Most of the growth in U.S. investments in Canada, especially in the manufacturing sector, is financed out of retained earnings. These were down slightly in 1964 because dividend distributions were raised very substantially and outpaced the considerable rise in earnings. Net capital outflows to Canada were reduced to the unusually low figure of \$250 million in 1964 because of sales of interests in Canadian affiliates amounting to about \$140 million. This year, the capital

flow rose sharply to \$370 million in the first half alone, and included about \$100 million of parent company re-financing of outstanding debt of a Canadian affiliate.

Other developed countries

U.S. companies raised their rate of investment in Australia and Japan by relatively modest amounts in 1964, but held to the relatively low level of recent years for the Republic of South Africa. In Australia, where manufacturing investments have been growing quite vigorously, projections of plant and equipment expenditures indicate some acceleration. Mining

Table 6.—Net Capital Flows Between Primary and Secondary Foreign Affiliates, 1961-64

(Millions of dollars; net inflows (—))

	1961	1962	1963	1964
Canada.....	4	—	—4	2
Latin America.....	2	16	—1	1
Panama.....	10	13	14	17
Argentina.....	—6	—13	—14	—14
Mexico.....	—4	11	—5	(**)
Europe.....	—	—22	24	29
France.....	—14	—14	—0	—1
Germany.....	—8	—4	—30	—6
Italy.....	—24	—21	—0	—6
Switzerland.....	—60	—48	106	60
United Kingdom.....	—0	—0	—4	1
Other Europe.....	—0	—22	—43	—25
Other countries.....	—8	6	—19	—29

** Less than \$500,000.

Table 5.—Direct Investments in Manufacturing Enterprises Abroad, 1950, 1957, and 1961-64, by Industry

(Millions of dollars)

Area and year	Manufacturing total	Food products	Paper and allied products	Chemicals and allied products	Rubber products	Primary and fabricated metals	Machinery (except electrical)	Electrical machinery	Transportation equipment	Other products
All areas, total:										
1950.....	2,331	453	378	612	123	386	420	387	485	698
1957.....	5,089	723	722	1,375	401	941	827	751	1,204	953
1961.....	11,297	1,016	923	2,038	581	1,373	1,303	1,091	2,280	1,330
1962.....	13,218	1,305	967	2,270	583	1,406	1,523	1,198	2,800	1,348
1963.....	14,537	1,234	1,056	2,038	626	1,404	1,604	1,190	2,940	1,533
1964.....	16,281	1,393	1,120	2,005	674	1,390	2,027	1,310	3,351	2,670
Canada:										
1950.....	1,897	227	368	196	59	240	204	141	170	292
1957.....	3,325	320	620	947	123	671	327	330	305	471
1961.....	8,076	422	776	1,618	162	1,047	492	498	503	821
1962.....	9,312	455	817	1,597	199	1,062	455	436	613	858
1963.....	9,781	407	880	1,639	173	1,039	506	467	651	710
1964.....	6,191	510	917	1,012	170	986	649	501	708	773
Latin America:										
1950.....	781	168	6	205	00	23	13	79	63	135
1957.....	1,220	301	39	324	133	60	82	134	134	190
1961.....	1,187	257	30	438	140	06	83	159	248	217
1962.....	1,544	304	31	464	155	119	98	197	315	233
1963.....	2,212	300	69	678	101	132	118	198	390	359
1964.....	2,407	310	66	682	180	160	131	203	428	332
Europe:										
1950.....	682	04	5	74	81	111	174	143	102	128
1957.....	2,193	140	42	310	60	178	485	214	470	272
1961.....	4,255	269	70	614	110	375	885	330	1,144	462
1962.....	4,583	297	75	711	147	416	978	303	1,338	585
1963.....	5,634	325	81	865	166	488	1,000	442	1,665	650
1964.....	4,547	380	162	1,078	168	644	1,180	500	1,733	796
Africa:										
1950.....	55	0	—	0	11	1	2	3	17	8
1957.....	108	10	3	12	21	5	17	5	37	6
1961.....	122	15	4	10	24	6	19	8	21	9
1962.....	144	17	3	19	26	9	24	7	27	12
1963.....	177	21	3	24	38	12	33	10	38	16
1964.....	225	27	5	31	34	25	42	13	20	19
Asia:										
1950.....	60	0	—	12	14	(**)	6	2	8	10
1957.....	190	15	0	40	36	70	15	12	23	18
1961.....	316	22	17	86	67	33	22	17	29	30
1962.....	354	23	15	102	63	36	24	21	30	37
1963.....	480	31	24	134	87	42	26	25	34	40
1964.....	585	39	27	178	74	50	30	33	40	50
Oceania:										
1950.....	167	18	1	13	5	2	22	8	26	8
1957.....	314	23	3	27	17	6	26	34	148	20
1961.....	332	03	7	45	20	16	62	15	205	25
1962.....	613	79	0	67	33	33	62	43	287	53
1963.....	723	80	8	80	30	51	64	63	278	64
1964.....	866	104	9	97	42	76	86	68	313	70

1. Includes \$108 million in "other Western Hemisphere." Excludes investments in Cuba since 1961. These Cuban investments were estimated at year-end 1960 at \$111 million, and included \$21 million for food products, \$28 million for chemicals and allied products, \$33 million for the "other products" group and \$34 million for all other manufacturing industries.

** Less than \$500,000.

Source: U.S. Department of Commerce, Office of Business Economics.

investments in Australia are also reaching significant dimensions. The rate of manufacturing investments in Japan has also increased recently. In both countries, substantial amounts are being invested by petroleum companies.

Less developed countries

Direct investments in less developed countries (capital flows and reinvested earnings) rose by \$100 million in 1964 to \$0.8 billion, about one-fifth of the worldwide total. Nearly 70 percent of the 1964 investment was in the Western Hemisphere, but the increase for the year occurred largely in a few Latin American countries. There was a notable rise in capital flows to Mexico, especially for manufacturing, and smaller increases occurred in investments in Colombia and Peru. The amount invested in Argentina also rose in 1964, but this represented largely the reinvestment of substantially higher earnings of manufacturing affiliates rather than a flow of new capital. On balance, return flows from existing enterprises in Venezuela and Brazil exceeded new outflows.

Among the other less developed countries, there was a substantial rise in investment flows for the petroleum industry in Libya, and some increase occurred in flows to India and the Philippine Republic. A sizable capital flow was maintained by the petroleum industry to other African locations and to the Middle East.

Table 11 gives some indications of near-term trends in plant and equipment expenditures by U.S. companies

in the less developed countries. Some moderate increase is suggested in Latin America, in Africa (especially in the petroleum resources of North Africa), and in Middle Eastern oil, but major gains in U.S. investments in these areas are not indicated. However, capital flows to these developing areas in the first half of 1965 were far ahead of the

1964 amounts, partly because of such temporary factors as tax settlements and payments for development concessions.

Table 8.—Direct-Investment Receipts of Royalties and Fees,¹ by Area and Major Industries, 1963-64

(Millions of dollars)

Area and industry	1963			1964		
	Acquisitions	Sales	Net	Acquisitions	Sales	Net
All areas, total	338	52	170	429	168	263
Petroleum	30	4	26	10	30	-19
Manufacturing	171	39	132	336	76	260
Other industries	27	9	18	83	61	22
Canada, total	71	32	39	84	140	-56
Petroleum	30	4	26	2	20	-18
Manufacturing	23	18	5	79	73	6
Other industries	18	9	9	3	37	-34
Europe, total	147	7	140	341	3	338
Petroleum	140	7	133	245	1	243
Manufacturing	7	—	7	70	2	68
Other industries	—	—	—	—	—	—
Other areas, total	9	13	-4	24	23	1
Petroleum	—	—	—	—	—	—
Manufacturing	7	13	-6	13	1	12
Other industries	2	—	2	10	22	-12

¹ Includes acquisitions and sales of minority interests.

² Less than \$500,000.

Trends in major industries

In 1964, a record \$1.9 billion was invested in foreign manufacturing affiliates, financed by \$1.0 billion of capital supplied by U.S. parent firms (including \$260 million to acquire foreign enterprises or to buy out minority holders) and \$900 million reinvested from foreign earnings. In the first half of 1965, there was no slackening of these investments, and as noted above, projections of plant and equipment expenditures of foreign manufacturing affiliates show a 28 percent rise for 1965.

Manufacturing investments expanded in all industry sectors during 1964. (See table 5.) The chemical industry, which is carrying out a major expansion program for fertilizer and petrochemical plants, increased its investment by over \$450 million, and the transportation industry (including automobile producers) raised its investment by \$400 million. Most of these manufacturing investments were in the developed countries; under \$400 million went to the less developed countries for all branches of manufacturing.

Net new investments of petroleum companies abroad declined in 1964, partly because of negative undistributed earnings in European subsidiaries and partly because of lower capital outflows to Canada and the Middle East. In the Middle East, settlements of oil companies with some of the oil-producing countries resulted in temporary accumulations in the United States of funds that were paid out in 1965. Though a major part of oil investment is still being used to increase refining capacity and marketing facilities around the world, renewed attention is being given to developing new production and to exploring for new sources of oil and natural gas in North Africa, the Persian Gulf area, Northwestern Europe, and adjoining continental shelf areas.

Companies engaged in mineral operations other than petroleum were somewhat more active in 1964 than in recent years. Activity centered on the development of bauxite properties in Australia and the Caribbean, and iron ore properties in Canada and Australia.

Investments in trade and miscel-

Table 9.—Plant and Equipment Expenditures of Direct Foreign Investments, Major Industries, 1957-64

(Millions of dollars)

Area and industry	1957	1958	1959	1960	1961	1962	1963	1964	1965*
All areas, total	4,810	4,097	3,785	3,789	4,322	4,648	5,488	6,118	7,323
Mining and smelting	431	420	437	428	312	482	308	420	584
Petroleum	3,332	1,864	1,698	1,187	1,594	1,628	1,889	2,068	2,330
Manufacturing	1,047	1,163	1,147	1,307	1,792	2,042	2,351	2,983	3,821
Trade	186	191	186	186	222	253	266	328	340
Other industries	643	462	283	303	272	267	304	321	277
Canada, total	1,693	1,311	1,179	1,259	1,416	1,165	1,279	1,559	1,843
Mining and smelting	163	172	240	250	105	245	196	220	248
Petroleum	584	510	389	300	315	300	375	385	377
Manufacturing	361	404	389	364	365	458	435	700	1,031
Trade	47	55	43	60	39	55	71	80	83
Other industries	288	170	125	165	112	106	103	105	113
Latin America, total	1,687	1,248	1,003	1,050	1,095	868	879	1,023	1,097
Mining and smelting	216	227	167	78	87	96	100	128	150
Petroleum	1,030	577	449	340	300	334	337	397	368
Manufacturing	174	202	198	213	234	266	286	402	428
Trade	20	31	31	31	41	41	43	60	58
Other industries	258	258	163	90	107	90	102	116	91
Europe, total	899	978	906	1,092	1,374	1,673	1,983	2,142	2,589
Mining and smelting	2	—	2	2	1	4	6	3	7
Petroleum	275	422	380	345	428	404	642	643	728
Manufacturing	487	440	480	650	946	1,024	1,187	1,263	1,737
Trade	107	87	104	63	118	129	116	160	155
Other industries	28	7	14	12	13	23	31	43	32
Other areas, total	440	641	607	688	627	821	1,019	1,394	1,773
Mining and smelting	40	27	49	58	28	84	80	71	123
Petroleum	424	845	390	622	478	495	665	711	877
Manufacturing	118	114	115	152	238	274	301	519	632
Trade	12	18	21	22	28	28	34	38	45
Other industries	46	37	46	36	40	30	27	55	46

* Estimated on the basis of company projections.

¹ Includes "other Western Hemisphere."

laneous service industries (including financial and holding companies) were each increased by about \$0.4 billion in 1964. About three-quarters of the new investment in trade and service industries was made in the developed countries, mostly in Europe, and smaller amounts went to Canada.

Earnings and Income

Last year, earnings of foreign affiliates of U.S. firms rose by a record \$530 million to reach \$5.1 billion. Manufacturing operations accounted for \$0.3 billion of the increase, scoring large gains in most areas and particularly in Europe. Some of the upward movement of earnings was the result of the enlarged investment base, but in manufacturing industries, earnings also rose relative to the book value of outstanding investments. This suggests, among other things, that plant facilities were better utilized or that current costs of production were reduced. Data on sales of the foreign affiliates will appear in a later issue of the SURVEY.

Earnings of mining operations abroad also registered a substantial gain of more than \$0.1 billion, mainly in Canada and Latin America. This industry benefited from generally rising prices for metals and minerals last year.

Foreign earnings of the petroleum industry advanced very little in 1964. There was a gain of well over \$0.1 billion from rising production in North Africa, and earnings on Latin American production also improved, but these changes were partly offset by lower earnings of European operations, especially in the Common Market countries.

Income returned from these direct foreign investments—in the form of dividends, branch profits, and interest—rose even more rapidly than total earnings. These receipts amounted to \$3.7 billion in 1964, a gain of \$0.6 billion over the 1963 amount. Over two-thirds of the gain in manufacturing earnings was paid out as dividends. Income of the petroleum affiliates rose by \$0.2 billion even though underlying earnings rose only slightly.

Some of the spurt in dividend remittances was probably related to the scheduled drop in the U.S. corporate

tax rate at the beginning of 1964, which caused dividends to be held back in 1963. A further sharp rise of 15 percent over 1964 in income received is estimated for the first half of 1965. This may reflect the second step of the reduction in corporate tax rates as well as rising foreign earnings. Remittances may also be increasing in response to the voluntary balance of payments program.

Because dividend remittances rose faster last year than the earnings of foreign subsidiaries, undistributed profits fell slightly from the record \$1.5 billion of 1963. The principal reductions in undistributed profits were in European petroleum affiliates and in Canadian manufacturing affiliates. These reductions were offset in part by larger reinvested earnings of manu-

facturing affiliates in Latin America and Europe and by those of mining affiliates in Canada.

Returns from foreign affiliates in the form of royalties and fees are also important elements in the balance of payments. These increased by \$0.1 billion in 1964 (table 8), mainly from manufacturing operations in developed countries. Of the \$4 billion of royalties and fees received in 1964, about two-thirds represented charges for management services and the rest were payments of royalties, license fees, and rentals.

Portfolio and Short-Term Investments

American investors have severely limited their purchases of foreign securities since the proposal of the Interest

Table 10.—Plant and Equipment Expenditures Abroad by U.S. Manufacturing Companies, by Area and Major Commodity, 1960-66

(Millions of dollars)

Area and years	Total	Food products	Paper and allied products	Chemicals	Rubber products	Primary and fabricated metals	Machinery, excluding electrical	Electrical machinery	Transportation equipment	Other manufacturing
All areas, total:										
1960	1,367	97	79	257	68	133	192	104	338	162
1961	1,783	129	71	279	91	169	290	141	473	148
1962	2,043	129	95	308	91	182	315	177	585	183
1963	2,251	182	134	436	68	204	330	184	580	229
1964	2,808	167	166	621	109	200	416	212	733	279
1965*	3,821	182	218	878	164	255	694	218	857	267
1966*	3,809	143	136	834	147	308	693	202	1,007	217
Canada:										
1960	384	30	56	75	16	49	17	30	53	60
1961	385	20	64	55	18	45	49	31	60	62
1962	498	28	75	75	19	57	38	50	65	61
1963	555	30	100	130	16	60	39	40	94	46
1964	789	29	116	177	30	110	47	48	187	47
1965*	1,071	50	132	290	30	119	66	58	229	55
1966*	904	35	83	308	25	80	90	52	238	50
Latin America:†										
1960	211	24	7	48	12	11	12	19	47	31
1961	254	37	5	45	10	25	13	27	52	30
1962	286	36	6	62	12	20	16	25	61	40
1963	308	32	9	94	17	16	19	19	60	32
1964	402	42	15	124	18	23	23	34	78	40
1965*	420	45	19	140	23	34	36	29	54	42
1966*	388	36	13	101	20	27	17	23	69	30
Europe:										
Common Market:										
1960	370	17	2	44	11	10	114	21	128	23
1961	534	30	3	63	11	16	104	26	181	27
1962	618	30	4	54	23	25	156	44	245	35
1963	607	29	7	85	21	45	173	29	155	51
1964	682	20	11	128	23	64	184	46	151	53
1965*	953	25	19	153	25	82	259	53	314	54
1966*	1,100	23	12	180	30	38	363	63	382	38
Other Europe:										
1960	250	18	3	42	15	20	24	18	74	35
1961	372	17	4	49	16	40	38	30	141	31
1962	405	21	6	51	13	45	65	41	123	41
1963	500	24	10	71	18	40	60	51	158	54
1964	611	41	11	92	14	40	82	62	177	53
1965*	744	35	18	142	21	53	106	65	221	79
1966*	756	24	9	140	20	51	127	43	254	58
Other areas:										
1960	152	3	12	28	10	13	24	18	23	12
1961	238	13	5	33	28	26	35	17	39	18
1962	274	13	4	79	22	16	41	17	71	16
1963	301	17	8	79	21	37	39	15	85	28
1964	510	19	14	105	23	63	30	24	162	37
1965*	532	27	20	145	45	98	183	25	120	37
1966*	664	24	18	114	34	172	106	22	142	22

* Revised.

† Estimated on the basis of company projections.

‡ Includes "Other Western Hemisphere."

Table 11.—Plant and Equipment Expenditures of Direct Foreign Investments, by Country and Major Industry, 1963-66

	1963 *			1964			1965 *			1966 *		
	Min- ing and smelt- ing	Petro- leum	Manu- factur- ing	Min- ing and smelt- ing	Petro- leum	Manu- factur- ing	Min- ing and smelt- ing	Petro- leum	Manu- factur- ing	Min- ing and smelt- ing	Petro- leum	Manu- factur- ing
All areas, total.....	398	1,189	2,251	428	2,066	2,083	584	2,359	2,821	485	2,139	2,699
Canada.....	195	375	636	228	385	769	248	377	1,631	198	245	944
Latin American Republics, total.....	75	245	271	72	272	363	193	289	399	78	282	329
Mexico.....	5	10	80	8	5	112	11	4	122	8	4	70
Other countries in Central America and West Indies.....	2	32	8	2	30	5	3	41	8	2	20	8
Argentina.....	(*)	12	89	(*)	12	80	(*)	14	100	(*)	18	55
Brazil.....	2	3	57	3	4	61	4	3	44	5	8	70
Chile.....	25	(*)	4	27	(*)	8	38	(*)	31	24	(*)	6
Colombia.....	(*)	30	25	(*)	48	24	(*)	30	81	(*)	36	22
Peru.....	18	10	13	22	8	23	28	12	30	34	13	21
Venezuela.....	(*)	142	16	(*)	124	24	(*)	172	31	(*)	180	33
Other countries in South America.....	1	(*)	4	1	(*)	17	2	(*)	3	1	(*)	6
Other Western Hemisphere.....	34	62	37	54	85	30	54	59	21	39	62	7
Europe, total.....	5	642	1,197	3	623	1,281	7	728	1,737	5	776	1,355
Common Market, total.....	1	394	607	1	276	682	1	376	943	1	406	1,100
Belgium and Luxembourg.....	(**)	11	36	(**)	28	67	(**)	30	112	(**)	28	118
France.....	(**)	64	100	(**)	68	178	(**)	106	228	(**)	89	225
Germany.....	(**)	184	261	(**)	121	279	(**)	134	478	(**)	96	535
Italy.....	(**)	84	187	(**)	124	105	(**)	82	92	(**)	77	110
Netherlands.....	(**)	40	41	(**)	53	65	(**)	35	73	(**)	112	112
Other Europe, total.....	4	256	600	2	248	611	6	352	744	7	370	755
Denmark.....	(**)	37	5	(**)	20	0	(**)	24	4	(**)	20	3
Norway.....	(**)	3	12	(**)	10	12	(**)	13	19	(**)	12	12
Spain.....	(**)	20	23	(**)	23	42	(**)	7	26	(**)	6	21
Sweden.....	(**)	25	17	(**)	22	12	(**)	26	18	(**)	32	10
Switzerland.....	(**)	4	10	(**)	6	15	(**)	18	20	(**)	16	18
United Kingdom.....	1	140	289	(**)	126	503	(**)	214	607	(**)	235	651
Other countries.....	3	22	34	2	28	22	(**)	58	42	(**)	41	29
Africa, total.....	58	384	54	41	258	63	46	287	32	21	288	97
North Africa.....	(**)	129	1	(**)	180	1	(**)	195	3	(**)	254	6
East Africa.....	(**)	14	(**)	(**)	3	1	(**)	10	1	(**)	7	1
West Africa.....	38	8	3	19	47	38	23	51	40	7	68	52
Republic of South Africa.....	16	(*)	19	5	(*)	45	8	(*)	48	8	(*)	35
Other countries in Central and South Africa.....	6	(*)	1	17	(*)	(**)	14	(*)	(**)	16	(*)	(**)
Asia, total.....	2	287	235	1	278	212	1	441	287	1	377	218
Middle East.....	(**)	125	5	(**)	114	9	(**)	209	9	(**)	140	24
Far East, total.....	2	172	181	1	164	206	1	232	278	1	237	194
India.....	(*)	17	(*)	(*)	35	(*)	(*)	47	(*)	(*)	31	31
Japan.....	(*)	69	(*)	(*)	113	(*)	(*)	180	(*)	(*)	123	123
Philippine Republic.....	1	(*)	30	(*)	40	(*)	(*)	34	(*)	(*)	19	19
Other countries.....	1	(*)	25	(**)	18	(**)	(*)	17	(**)	(*)	21	21
Oceania, total.....	29	54	141	29	96	126	53	274	164	75	399	399
Australia.....	29	(*)	138	29	(*)	126	(*)	208	164	(*)	327	327
Other countries.....	(*)	(*)	3	(*)	(*)	7	(*)	11	(*)	(*)	12	12
International shipping.....	44	(*)	(*)	100	(*)	(*)	65	(*)	(*)	58	(*)	(*)

* Included in area total.

** Less than \$500,000.

(*) Revised.

* Estimated on the basis of company projections.

Table 12.—Domestic and Foreign Expenditures for Plant and Equipment in Selected Industries, 1963-65

Industry	Expenditures 1963 *				Expenditures 1964				Expenditures 1965 *			
	Total	Do- mestic	For- eign	Per- cent of for- eign to total	Total	Do- mestic	For- eign	Per- cent of for- eign to total	Total	Do- mestic	For- eign	Per- cent of for- eign to total
Manufacturing, total for selected in- dustries.....	10,188	5,169	2,028	19.5	13,658	5,940	2,772	21.4	15,624	12,079	2,554	22.7
Food products.....	1,192	970	123	12.0	1,217	1,080	137	12.9	1,359	1,170	189	13.8
Paper and allied products.....	844	720	124	15.7	1,108	940	168	15.0	1,343	1,190	153	11.4
Chemicals.....	2,046	1,610	436	21.3	2,601	1,970	631	24.3	3,340	2,470	870	26.0
Rubber products.....	338	240	98	29.0	379	270	109	28.8	514	369	145	28.2
Primary and fabricated metals.....	2,304	1,100	1,204	52.3	1,700	1,410	290	17.0	2,016	1,000	1,016	50.4
Machinery, except electrical.....	1,570	1,240	330	21.0	2,055	1,615	440	21.4	2,284	1,900	384	16.8
Electrical machinery.....	684	680	4	0.6	872	860	12	1.4	1,018	980	38	3.7
Transportation equipment.....	2,120	1,480	640	30.2	2,723	1,890	833	30.6	3,457	2,500	957	27.7
Mining and petroleum.....	5,247	3,350	2,397	45.7	7,628	4,880	2,498	32.7	9,474	6,140	2,934	30.9

* Revised. * Estimated on basis of company projections.

† Excludes primary iron and steel producers.

NOTE.—Foreign expenditures include acquisitions of existing fixed assets, which are excluded from the domestic series.

Equalization Tax in mid-1963. Purchases of new issues still provide a considerable amount of capital to Canada and some other borrowers exempt from the IET, but issues by European and other countries that were making extensive use of the U.S. market prior to mid-1963 have become inconsequential. (See table 13.) Some of the demand has shifted to European markets—although these have been open only on a limited basis and mainly for European borrowers—or may have been replaced by other forms of U.S. capital outflows. U.S. investment firms have been active in placing new foreign securities in European markets, and a number of such issues have been sold in the U.S. market entirely to foreign investors.

On balance, U.S. investors have been liquidating their existing holdings of foreign securities since the IET was proposed. This has affected mainly European issues and may reflect weaknesses in most European equity markets, but there has also been net selling of Canadian issues despite the comparative strength of the Canadian market.

At the beginning of this year, U.S. holdings of foreign securities had an estimated market value of \$14.5 billion (table 15), about \$10.0 billion more than at the end of 1950. Some \$9.0 billion of the total was in the form of bonds or other debt securities, and \$5.3 billion was in corporate stocks. By far the largest amount, \$8.1 billion, was invested in Canadian securities, and \$2.9 billion in European securities. Though there were large holdings of bonds of international institutions, only a few less developed countries have been able to sell significant amounts of their securities in the U.S. market since the 1920's.

Since 1950, American banks have steadily expanded their foreign loans and other assets (including some assets held for their customers), which reached a peak net capital outflow of \$2.5 billion in 1964. This raised the total outstanding at the end of 1964 to nearly \$12 billion, including \$0.7 billion reported for the first time as banks reviewed their records more closely in connection with the voluntary program. During 1964, the net capital

outflow by banks to developing countries was unusually high, but the most rapid growth was in loans to European countries, which may have substituted, directly or indirectly, for sales of securities or longer term loans that would have been subject to the IET.

Nonfinancial firms accounted for an outflow of \$0.9 billion in 1964. This included the acquisition of liquid assets, such as time deposits or financial paper in Canada and the United Kingdom, as well as a \$250 million loan to finance a

power project in Canada. In accordance with the guidelines of the voluntary balance of payments program, a substantial portion of the liquid assets held abroad by industrial firms was withdrawn after February 1965.

Foreign Investments in the United States

Capital inflows from foreign investors for direct investments or purchases of U.S. securities or other assets (other than short-term assets or special Government issues) have been relatively small in recent years and amounted to only \$110 million in 1964. In the first half of 1965, there was a negligible net inflow.

The largest negative factor has been a liquidation of foreign holdings of U.S. securities, other than Treasury public debt issues. This has been largely, but not entirely, for United Kingdom account, and reach \$250 million in the second quarter of 1965. Despite the net liquidation, the improvement in market prices raised the estimated value of foreign holdings of U.S. corporate stocks to \$13.8 billion by the

end of 1964. Over \$10 billion of that amount was in European holdings.

Part of the "long-term" capital inflow in 1964 and the first half of 1965, \$236 million and \$195 million, respectively, represented increases in foreign funds held in long-term time deposits in the United States. Much of this was the temporary investment of the proceeds of sales of securities in the United States, including \$235 million, net, by international and interregional organizations.

There has also been a small net outward flow of direct investment capital in the last few years, however, as shown in table 14. This was the balance of a moderate inflow for new investments and slightly higher net transfers abroad through intercompany accounts or liquidations. Most of the annual increase in the value of foreign direct investments in the United States resulted from undistributed profits, which rose to more than \$300 million in 1964. This reflected a considerable gain in earnings of the U.S. affiliates, especially in the manufacturing sector, while income distributed abroad was slightly reduced.

Table 13.—New Foreign Issues Placed in the United States, 1963-June 1965

(Millions of dollars; before deducting discounts and commissions)

Areas	Gross amount sold			U.S. portion		
	Total	Publicly offered	Privately offered	Total	Publicly offered	Privately offered
1963 (January-June)						
Total	754	482	272	632	345	287
Canada	334	64	290	328	43	275
Europe	68	66	2	12	13	—
Australia, Republic of	—	—	—	—	—	—
South Africa, New Zealand, and Japan	68	66	2	37	37	—
Other countries	169	94	12	94	82	12
International Bank	181	181	—	181	181	—
1964 (July-December)						
Total	705	398	307	678	191	487
Canada	442	—	442	434	—	434
Europe	32	15	17	27	16	17
Australia, Republic of	—	—	—	—	—	—
South Africa, New Zealand, and Japan	—	—	—	—	—	—
Other countries	230	183	47	209	101	108
International Bank	—	—	—	—	—	—
1964 (January-June)						
Total	450	149	301	416	123	292
Canada	282	—	282	275	—	275
Europe	19	15	4	11	7	4
Australia, Republic of	—	—	—	—	—	—
South Africa, New Zealand, and Japan	—	—	—	—	—	—
Other countries	144	119	25	128	111	17
International Bank	5	5	—	5	5	—
1965 (July-December)						
Total	285	142	143	267	105	162
Canada	86	—	86	85	—	85
Europe	69	20	49	54	5	49
Australia, Republic of	—	—	—	—	—	—
South Africa, New Zealand, and Japan	—	—	—	—	—	—
Other countries	74	74	—	68	42	26
1965 (January-June)						
Total	1,125	280	845	845	173	672
Canada	822	—	822	804	—	804
Europe	285	106	179	223	16	207
Australia, Republic of	—	—	—	—	—	—
South Africa, New Zealand, and Japan	164	125	39	130	93	37
Other countries	82	35	47	48	34	14

* Preliminary.

* Less than \$500,000.

* Revised.

* Includes \$100 million offering of Inter-American Development Bank bonds.

* Includes \$46 million offering of Inter-American Development Bank bonds.

* Includes \$116 million of bonds of Shell Funding Corporation.

Note.—The amounts shown for U.S. purchases exceed the figures used in the balance of payments because the latter exclude discounts and commissions. The International Bank for Reconstruction and Development issues are reduced by the amount of delayed deliveries included in subsequent years. A detailed listing of foreign issues placed in the U.S. in the years 1952-64 is available on request.

Table 14.—Foreign Direct Investments in the United States, Selected Data, 1963 and 1964, by Country and Industry

	Value			Capital flow			Earnings ¹		
	December 1960	December 1963	December 1964 ²	Total	New investments ³	Other	Total	New investments ³	Other
Total	3,381	7,944	8,383	-5	151	-156	-5	71	-76
By Area									
Canada	1,028	2,128	2,284	44	32	11	25	8	16
United Kingdom	1,168	2,605	2,796	44	34	7	23	-69	164
Other Europe	1,068	2,898	3,023	-61	82	-123	24	20	-2
Belgium	161	175	175	-2	—	—	—	—	—
France	188	189	187	-5	1	-5	8	5	3
Germany	146	156	156	-9	1	-10	5	10	14
Italy	102	102	102	19	25	-6	3	11	-11
Netherlands	394	1,134	1,231	-25	15	-50	4	30	121
Sweden	185	185	185	(*)	(*)	(*)	7	10	-3
Switzerland	345	825	890	-52	20	-52	24	2	29
Other	377	89	88	3	—	3	—	—	—
Other countries	124	260	250	-31	21	-52	-19	4	-22
By Industry									
Petroleum	495	1,513	1,612	-44	20	-64	-43	3	-56
Manufacturing	1,138	3,019	3,213	42	63	-22	60	45	14
Trade	188	206	206	-51	3	-53	-45	4	-49
Insurance	1,063	2,045	2,181	-37	—	-37	—	—	—
Other finance	(*)	(*)	(*)	37	30	8	34	8	26
Other industries	784	603	683	48	35	12	23	18	7

* Preliminary.

† Not shown separately.

* Less than \$500,000.

¹ "Earnings" represents the foreign share in corporate or branch profits; "Income" is the amount distributed, after withholding taxes, as dividends, interest, or branch profits.

² "New investments" represents initial investments in U.S. companies or increase in equity capital of existing foreign-owned U.S. companies.

³ Includes market revaluations of securities held by insurance companies.

* Included in "Insurance."

Short-term investments

In 1964, there was once again a very large gain in foreign holdings of short-term assets in the United States and of various obligations of the U.S. Government. These holdings rose by \$3.2 billion in 1964 to a total of \$31.9 billion. However, this was not accompanied, as in other recent years, by a sizable loss of U.S. monetary reserve assets. In the first half of 1965, by contrast, foreign

holdings of liquid dollar assets dropped by about \$1 billion, while U.S. monetary reserve assets were drawn down by \$0.9 billion.

These dollar holdings by foreigners take a variety of forms, and included, at the end of 1964, \$16.7 billion of deposits and other claims on U.S. banks, \$11.2 billion of marketable debt of the U.S. Government, and an additional \$3.2 billion of obligations of the U.S. Government arising mainly from special

security issues or advance deposits by foreign governments.

Some \$20.0 billion of these short-term dollar assets and U.S. Government obligations was reported to be held by foreign governments or intergovernmental organizations, \$7.2 billion by foreign private banks, and \$4.7 billion by other foreigners. However, these designations are based to a large extent on banking records, which often cannot identify the ultimate owner of the asset.

Table 15.—International Investment Position of the United States, Total 1950, by Area, 1963-64
(Millions of dollars)

Type of Investment	Total			Western Europe		Canada		Latin American Republics		Other foreign countries		International institutions and unallocated	
	1960	1963*	1964*	1963*	1964*	1963*	1964*	1963*	1964*	1963*	1964*	1963*	1964*
U.S. assets and investments abroad, total.....	31,633	38,341	38,720	24,825	27,804	21,713	24,096	15,727	17,355	21,127	21,211	4,918	4,773
Gold stock (not included in total).....	22,820	15,596	15,471										
Private investments.....	19,904	26,513	25,418	17,000	19,829	21,708	24,594	12,382	13,798	12,647	14,598	2,508	2,903
Long-term.....	17,488	24,380	24,751	14,943	17,484	20,318	22,597	10,398	11,218	9,478	10,529	2,807	2,903
Direct.....	11,738	40,698	44,343	10,343	12,867	12,844	13,820	8,882	9,882	8,907	7,551	1,723	1,853
Foreign dollar bonds.....	1,092	7,385	3,215	779	2,825	4,474	390	556	1,288	1,288	1,309	1,074	1,040
Other foreign bonds.....	1,455	819	878	86	30	680	730	24	167	85	71		
Foreign corporate stocks.....	1,175	5,145	5,270	2,319	2,865	2,461	2,958	65	87	360	199		
Banking claims.....	290	2,830	4,064	1,081	1,898	1,948	1,106	985	1,197	694	1,049		(x)
Other.....	977	1,515	1,871	762	844	258	538	311	299	186	139		
Short-term assets and claims.....	1,545	3,133	10,665	1,857	2,045	1,390	1,994	1,906	2,580	3,169	4,069	1	(x)
Reported by banks.....	888	5,887	7,948	122	1,218	828	913	1,889	2,128	2,787	3,587		(x)
Other.....	657	2,246	2,717	734	825	562	1,081	377	452	482	472	1	(x)
U.S. Government credits and claims.....	12,435	21,728	21,501	7,825	8,272	1	5	4,325	3,897	3,484	3,413	2,108	1,874
Long-term credits.....	10,788	17,149	18,772	7,828	7,258			2,124	3,298	3,844	3,018	1,842	1,100
Repayable in dollars.....	n.a.	13,182	13,971	4,952	6,199			2,673	2,972	3,258	3,700	1,052	1,100
Repayable in foreign currencies, etc., ¹	n.a.	3,967	4,801	1,877	1,187			262	326	2,688	2,318		
Foreign currencies and short-term claims.....	322	3,392	3,328	587	488	3	2	241	239	2,580	2,594	25	5
IMF gold tranche position and monetary authorities' holdings of convertible currencies.....	1,445	1,247	1,201	289	428	2	2				1	1,085	769
Foreign assets and investments in the United States, total.....	17,636	51,488	55,943	29,384	33,383	7,772	8,384	4,792	5,451	6,129	5,918	2,527	2,738
Long-term.....	7,987	23,791	24,879	16,287	17,726	3,883	4,187	1,893	1,898	1,988	1,168	184	212
Direct.....	3,381	7,941	8,283	5,451	5,319	2,183	2,284	112	134	158	120		
Corporate stocks.....	2,925	12,485	13,536	9,287	10,159	1,490	1,726	825	1,077	887	723	68	88
Corporate, State, and municipal bonds.....	134	702	822	480	603	(x)	(x)	77	90	46	117	108	108
Other.....	1,000	1,600	1,549	978	1,035	209	177	209	206	282	200	1	2
Short-term assets and U.S. Government obligations.....	9,649	28,595	31,064	13,097	15,657	3,889	4,197	2,899	3,553	4,141	4,750	2,343	2,525
By type:													
Private obligations.....	5,437	14,892	17,499	5,815	7,089	2,018	2,302	2,908	3,340	3,709	4,442	487	426
Reported by banks.....	5,751	14,157	16,038	5,415	6,659	1,867	2,117	2,798	3,228	3,562	4,283	487	425
Other.....	728	735	811	400	423	81	55	114	114	140	159	(x)	(x)
U.S. Government obligations.....	2,101	13,803	14,384	7,282	8,568	1,871	1,915	490	445	1,332	1,308	2,296	2,108
Bills and certificates.....	1,508	8,720	8,798	4,347	5,885	1,051	867	225	170	1,148	1,157	864	1,030
Marketable bonds and notes.....	1,470	2,742	2,406	741	714	687	690	86	81	81	81	1,135	827
Nonmarketable bonds and notes.....		893	1,486	788	1,111	128	128						
Other.....	283	1,448	1,720	948	1,158	9	29	175	384	306	118	207	259
By holder:													
Foreign central banks and governments and international and regional institutions.....	n.a.	18,786	20,022	9,600	10,548	1,788	1,841	1,438	1,647	3,189	3,475	2,763	2,536
Foreign commercial banks.....	n.a.	6,713	7,179	2,380	3,274	1,898	1,898	377	304	1,306	1,055		
Other private holders and unallocated.....	n.a.	4,228	4,655	1,604	1,565	424	446	1,586	1,734	807	868	(x)	(x)

* Revised. * Preliminary. n.a. Not available. (x) Negligible.
1 Represents the estimated investment in shipping companies registered primarily in Panama and Liberia.

2 Consists primarily of securities payable in foreign currencies, but includes some dollar obligations including prior to 1963 participations and loans made by the International Bank for Reconstruction and Development. Effective 1963 participations in IBRD loans are included under banking claims and "other" long term, according to country of origin.

3 Excludes \$200 million netted against a related inflow of U.S. direct investment capital.

4 New series. For detail see Treasury Bulletin, June 1964, p. 88.

5 Includes \$24 million loaned to Canada in connection with Columbia River power development.

6 Excludes World War I debts that are not currently being serviced.

7 Includes indebtedness repayable in U.S. dollars, or optionally in foreign currencies when option rests with U.S. Government.

8 Includes indebtedness which the borrower may contractually, or at its option, repay with its currency, with a third country's currency, or by delivery of materials or transfer of services.

9 New series based on a Federal Reserve Board survey as of July 31, 1963. Data to reconcile the old and new series are not available.

10 Includes \$294 million of nonmarketable bonds issued to the Government of Canada in connection with transactions under the Columbia River Treaty.

11 Includes non-interest-bearing demand notes issued in payment of subscriptions to international and regional organizations (other than IMF), portfolio fund certificates sold abroad by Export-Import Bank, liabilities associated with government grant and capital transactions (including restricted accounts), and advances for military exports and other Government sales.

12 As reported by U.S. banks; ultimate ownership is not identified.